

UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF PUERTO RICO

-----X
In re:

PROMESA
Title III

THE FINANCIAL OVERSIGHT AND
MANAGEMENT BOARD FOR PUERTO RICO,

as representative of

No. 17 BK 3283-LTS

THE COMMONWEALTH OF PUERTO RICO,
et al.,

(Jointly Administered)

Debtors.¹
-----X

NOTICE OF CORRESPONDENCE RECEIVED BY THE COURT

The Court has received and reviewed the attached correspondence, described below, from interested persons in the above-captioned cases. Although the Court cannot respond individually to all of those who have expressed their thoughts or concerns, the Court is deeply mindful of the impact of the fiscal crisis on lives, institutions, and expectations, and of the importance of the issues that are raised in these unprecedented cases.

1. Email dated October 30, 2022 from José I. Galindez
2. Email dated November 21, 2022 from Richard Hirsch

Dated: November 29, 2022

¹ The Debtors in these title III cases, along with each Debtor's respective title III case number listed as a bankruptcy case number due to software limitations and the last four (4) digits of each Debtor's federal tax identification number, as applicable, are the (i) Commonwealth of Puerto Rico (the "Commonwealth") (Bankruptcy Case No. 17-BK-3283 (LTS)) (Last Four Digits of Federal Tax ID: 3481), (ii) Employees Retirement System of the Government of the Commonwealth of Puerto Rico ("ERS") (Bankruptcy Case No. 17-BK-3566 (LTS)) (Last Four Digits of Federal Tax ID: 9686), (iii) Puerto Rico Highways and Transportation Authority ("HTA") (Bankruptcy Case No. 17-BK-3567 (LTS)) (Last Four Digits of Federal Tax ID: 3808), (iv) Puerto Rico Sales Tax Financing Corporation ("COFINA") (Bankruptcy Case No. 17-BK-3284 (LTS)) (Last Four Digits of Federal Tax ID: 8474); (v) Puerto Rico Electric Power Authority ("PREPA") (Bankruptcy Case No. 17-BK-4780) (Last Four Digits of Federal Tax ID: 3747); and (vi) Puerto Rico Public Buildings Authority ("PBA") (Bankruptcy Case No. 19-BK-5233-LTS) (Last Four Digits of Federal Tax ID: 3801).

SwainDPRCorresp NYSD

From: Jose and Elena Galindez
Sent: Sunday, October 30, 2022 12:15 PM
To: NYSD Swain Corresp
Subject: Alternative funding proposal for PREPA debt servicing.
Attachments: PR Financials slides.pptx

CAUTION - EXTERNAL:

First of...Honorable Judge Swain, I am a huge fan and send you many heartfelt 'thank yous' for your work alongside the PROMESA Board for helping Puerto Rico recover from the 3 decades of fiscal mismanagement.

As a brief intro, I am a Cuban/Puertorrican now splitting my time between Oregon and Puerto Rico; living in PR from 1966 to 2001 when Intel's operations in Las Piedras concluded and I became one of the few who were offered jobs in our division's headquarters in Oregon. I left Intel in 2008, worked at nLIGHT Photonics and Columbia Helicopters in various Supply Chain Directorship positions, finally retiring summer of last year. Civically, I was a member of the Budget Committee of the City of Beaverton for 15 consecutive year and its Chair five times. Our city's Budget has received the Government Finance Officers Association *Distinguished Budget Presentation Award* for 34 consecutive years and am proud to have been part of that outstanding achievement.

It was my experience with fiscal management and budgeting that drove me to make a 'deep dive' into Puerto Rico's overall financial 'demographics' in light of the various rumors that the PREPA debt servicing might further burden PR families by \$20 to \$30 dollars a month. What I found suggests that is an appallingly bad idea, and my rationale for calling it an appallingly bad idea is in the slides attached. Given your role in this process, I would ask you to please review the attached presentation before you make any decisions on how the PREPA debt will be serviced.

I have sent this presentation to Mr David Skeel and other members of the Fiscal Supervision Board as well as to Mr. Manuel Cidré who's a decades-long dear family friend. Mr. Cidré committed to sharing it with his team for further consideration. Hopefully, together we can stop this idea of further burdening 1.5 million current PREPA/LUMA customers with a debt for which other servicing avenues exist...

Thanking you in advance for your interest in this matter and with best regards,
José I. Galindez, CSCP

CAUTION - EXTERNAL EMAIL: This email originated outside the Judiciary. Exercise caution when opening attachments or clicking on links.

PREPA Debt Servicing Alternatives

Jose I. Galindez, CSCP

October 2022

Quick refresher on regressive household expenses...

- A regressive tax or expense is one which is assessed or incurred in regardless of income and which low- and high-income earners pay the same or nearly the same dollar amount.
- This kind of tax or expense is a proportionally bigger burden on low-income earners than high-income earners because they consume a much larger percentage of the low-earners' income.
- Examples of highly regressive expenses or taxes:
 - Sales tax (IVU, VAT, etc) on basic goods and services
 - Tolls, fuel taxes, liquor, tobacco, etc.
- Power and water costs are partially regressive expenses or 'taxes' because there's a minimum 'consumption point' which even low-income households cannot drop below.
 - That 'minimum level cost' is proportionally a much larger burden on a lower-income household than it is for a more affluent household

Puerto Rico's Electricity Prices and Usage:

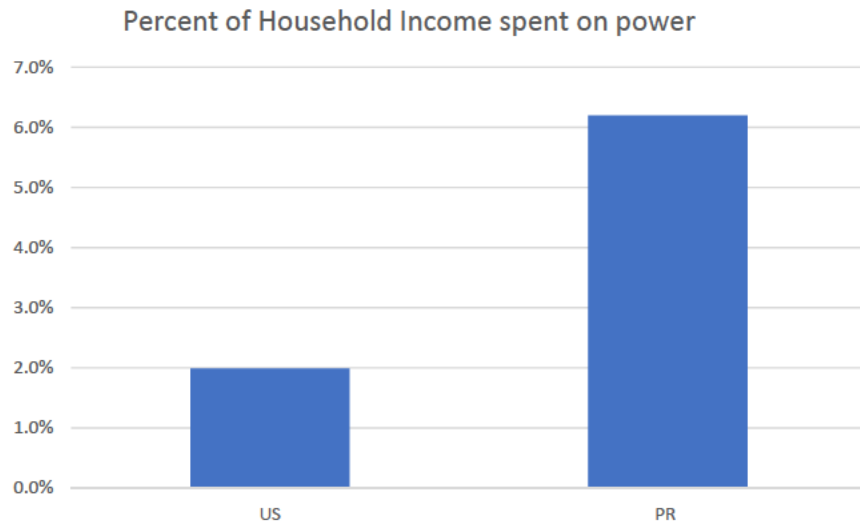
- PR's residential electricity rate of \$.2567 per kW/h** is the 2nd highest rate in the US and is 66% higher than the US average of \$.1542 cents per kW/h.*
- PR's average monthly power bill is \$110.47; 14th highest in the US.*
- PR has the lowest power consumption rate per capita of the 50 states with 5.02 megawatt hours used annually per person.
- Puerto Rico's old, inefficient plants make us the 35th highest polluting state with 3,643.47 kg of CO2 emissions per resident.
- During the first eight months of 2022 the average PREPA/LUMA customer spent 21 hours **per month** without power** versus the national average of just 8 hours **per year***

*FindEnergy.com

** PR Energy Board

Percent of Household Incomes devoted to Power

- US household income: \$70,874*
- US average monthly power bill: \$117.46**
- 1.9% of the household incomes are consumed by power bills.
- PR household income: \$21,058*
- PR average monthly power bill: \$110.47**
- 6.2% of PR's household incomes are consumed by power bills



- ***Households in PR devote 3x more of their income on power than households in the US***
- ***The sizeable indirect costs of PREPA/LUMA's horrid performance are further 'indirect tax burdens' to Puerto Rico's consumers***

*US Census Bureau

**FindEnergy.com

But wait, there's more: PR's Taxes and Tolls

- Beyond spending 3x more on electricity per household than rest of the US, our Sales Tax (IVU) of 11.5% is the highest in the nation and the only one in double-digits.
- Highway tolls per mile are among the highest in the US:
 - Caguas to San Juan = \$1.50 for 13.3 miles, or \$.11 per mile
 - Miami to Ft. Pierce via the FL Turnpike: \$7.60 for 127 miles or \$.06 per mile
- Tobacco: total tax on a pack of smokes in PR is \$4.26 (\$3.40 + \$.86 IVU); the second-highest total tax rate in the US.
- Even progressive taxes are far more regressive in PR than in the US:
 - Taxable income of \$61.5k in the US would yield a Federal tax of \$6,298.00
 - Same taxable income in PR would pay \$8,430.00, or 33% more.

PREPA Debt servicing:

- PREPA's current \$9b bond debts amount to approx. \$6,100.00 per connected customer
- Given the average power bill of \$110.47, if those \$6.1k were serviced in 15 years, power cost per customer would increase by 31%:
 - $\$6100/180 = \33.78 which is 30.5% of the current \$110.47 average bills
- If implemented as a kW/h 'surcharge', PR's cost per kW/h would increase by approx. \$.10 to \$.35 per kW/h and our power bills would look like this:
 - A \$100 power bill would become \$130.50
 - A \$200 power bill would become \$261.00
 - A \$400 power bill would become \$532.00

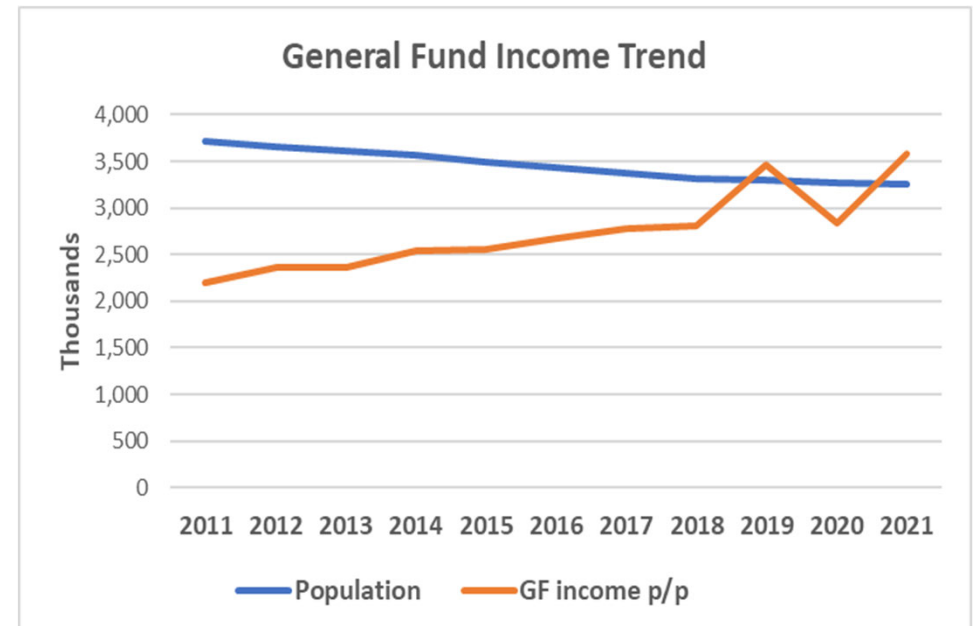
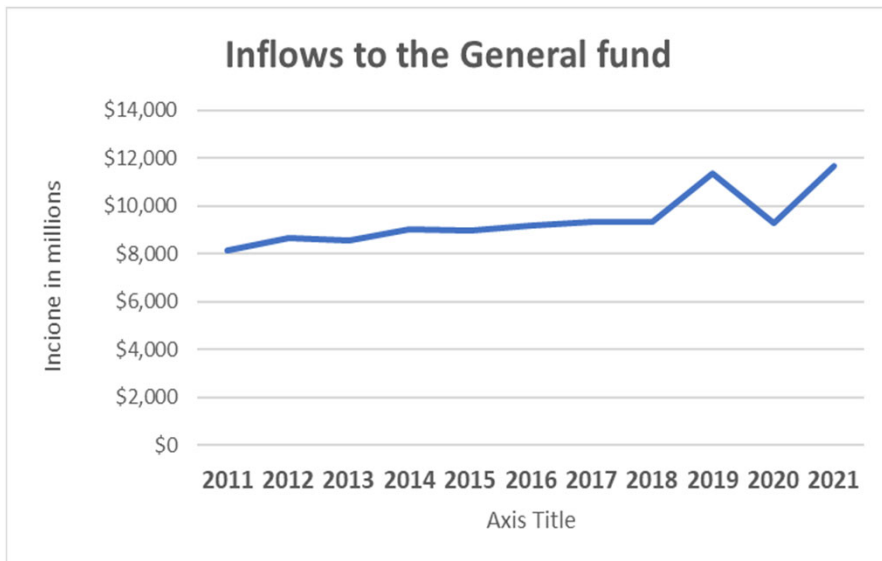
The economic and societal impact of such a rate would be incalculable considering the national average cost per kW/h of \$.1542*

We must try to find another avenue for servicing the PREPA debt!

* electricrate.com

**Fortunately, we have another option: set-asides from the
burgeoning General Fund**

General Fund income

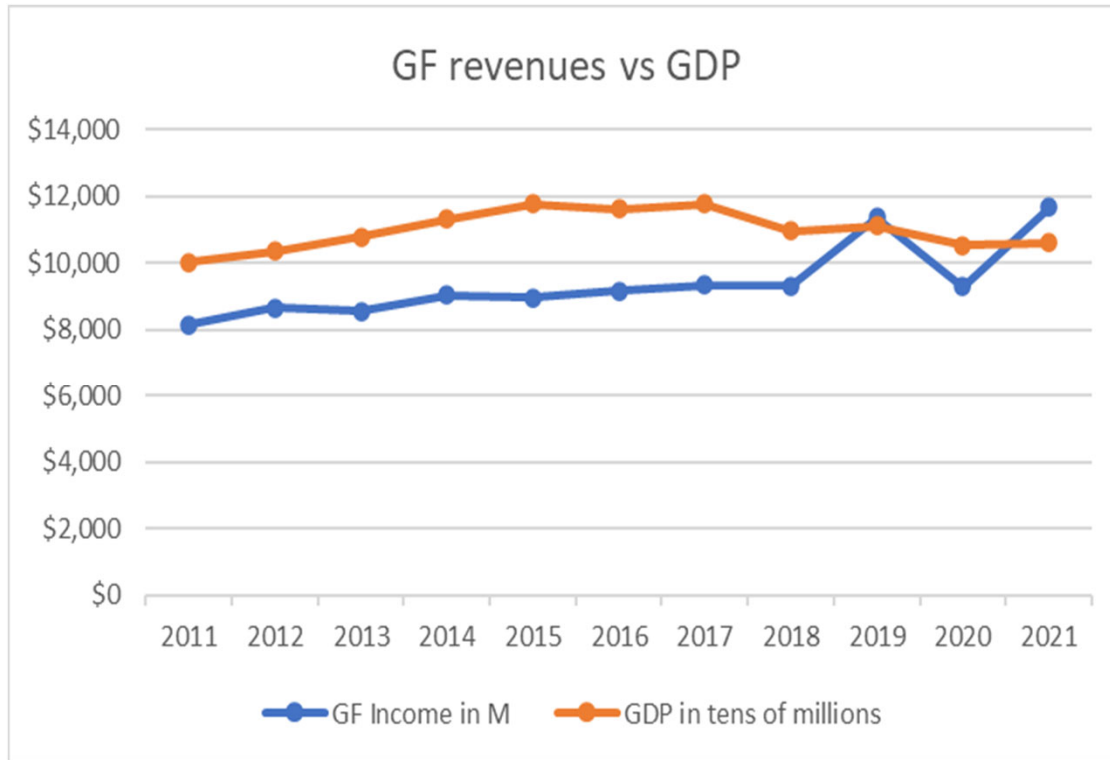


- Population decreased by nearly 450,000 over the last decade (3,718m to 3,256m)
- With 2020 an understandable outlier due to pandemic, per capita inflows to the General Fund have increased by 63% over the decade shown:

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
GF income p/p	\$2,194	\$2,369	\$2,368	\$2,538	\$2,562	\$2,673	\$2,773	\$2,806	\$3,455	\$2,839	\$3,584

General Fund income data: Departamento de Hacienda, Investors web page
Population data: United Nations

General Fund Revenues v. GDP

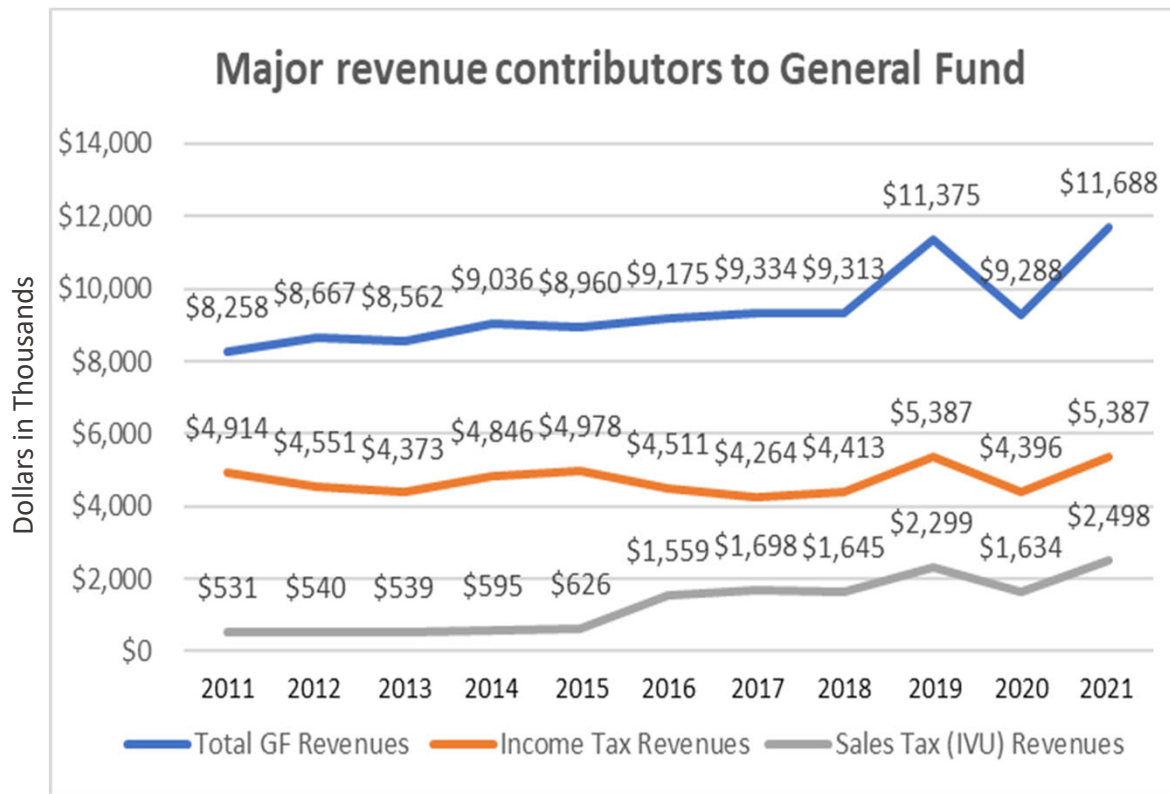


- GDP closely follows General Fund revenues until 2019
- Economic activity spurred on by Federal financial assistance for Hurricane Maria reconstruction efforts and government cost controls triggered sizeable GF revenue increases starting in 2019
- 2022 YTD data suggests a continuation of a multi-year trend of accelerating GF revenues:
 - As of March 2022, Hacienda reported GF revenues were running \$510m or 7% above previous 2022 forecasts

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
GF Income in M	\$8,158	\$8,667	\$8,562	\$9,036	\$8,960	\$9,175	\$9,334	\$9,313	\$11,375	\$9,288	\$11,668
GDP in tens of million	\$10,033	\$10,348	\$10,785	\$11,310	\$11,775	\$11,626	\$11,777	\$10,957	\$11,101	\$10,542	\$10,600

General Fund income data: Hacienda
GDP data: Government Development Bank

IVU Revenue's dramatic growth in last 5 years



- Income Tax revenues are relatively flat over the 10-year period studied
- Sales Tax (IVU) revenues have increased nearly 500% over the same horizon.
- Flat income tax revenues while IVU revenues have increased 5x suggests income tax collection is 'missing' a lot of income...
- IVU revenues should remain at an inordinately high level at least through 2030 as the remaining COR3 and other Federal funds are disbursed

Key take-aways on the Revenue side

- General Fund total and per capita revenues trend shows a healthy trend and revenue acceleration since 2019 primarily driven by IVU revenues...
- With 80% of the Federal aid for María and the earthquakes yet to be spent, economic activity will remain high through the next decade...
- Social Security's 8.7% COLA adjustment for 2023 will add ~\$73m per month income to Puerto Rico's eligible recipients, further stimulating economic activity and General Fund revenues in 2023 and beyond:

Table 1.

Number of OASDI beneficiaries in current-payment status and total monthly benefits, December 2021

Congressional district	Number of beneficiaries						Total monthly benefits (thousands of dollars)			Number of beneficiaries aged 65 or older
	Total	Retired workers	Disabled workers	Widow(er)s and parents	Spouses ^a	Children ^b	All beneficiaries	Retired workers	Widow(er)s and parents	
Puerto Rico	821,664	496,598	136,428	71,879	65,144	51,615	828,016	536,369	67,879	593,222

- **The General Fund should be the source of PREPA Debt Servicing funds, not the 1.5 million PREPA/LUMA customers.**

Proposal:

- Reduce State IVU by \$.015, dropping the effective tax rate to \$.09

	2017	2018	2019	2020	2021	
Current IVU Revenues	\$1,698	\$1,645	\$2,299	\$1,634	\$2,498	*
IVU give back to consumers (\$.015)	\$243	\$235	\$329	\$234	\$357	

- Create an 'IVU Revenue Set-Aside' in the GF in the amount of \$.01 to fund PREPA debt servicing, generating ~\$275m annually (or more).

	2017	2018	2019	2020	2021	
Current IVU Revenues	\$1,698	\$1,645	\$2,299	\$1,634	\$2,498	*
IVU Set Aside for PREPA debt servicing (\$.015)	\$185	\$179	\$251	\$178	\$272	

- Reducing IVU 1.5% would spur consumption by immediately increasing disposable income and shrink our cost of living gap vs the Lower 48
- The 1% IVU set-aside would cover most of the debt servicing costs.

* Data in Thousands

Proposal, cont...

- Using 2021 as the last full year of data available to me, total revenues into the General Fund would drop by ~600m annually
 - Numbers below show 'retroactive effect' just for illustration purposes.

	2017	2018	2019	2020	2021
Current IVU Revenues	\$1,698	\$1,645	\$2,299	\$1,634	\$2,498
Adjusted IVU Revenues into GF (\$.08)	\$1,294	\$1,253	\$1,752	\$1,245	\$1,903
General Fund Ret Revenue Delta	\$ (404)	\$ (392)	\$ (547)	\$ (389)	\$ (595)

- The \$600m shortfall illustrated above is likely to be less given:
 - The positive effect the IVU cut would have on the overall economy, driving moderately expanded expenditures and hence, IVU collection.
 - The positive effect on households and businesses alike by avoiding onerous, inflationary power cost increases

* Data in Thousands

Summary

- Flat-lined Income Tax revenues versus the sizeable increases in consumption-driven revenues (IVU) suggest something's not right in the 'capturing' of Income Taxes
- Recent trend on increasing IVU revenues should continue the billions of unspent COR3 funds and other projects continue to stimulate economic activity for the next decade.
- Further government expense reduction opportunities abound even beyond the many outstanding successes of the PROMESA team.
- The burgeoning IVU revenues into the General Fund provide for:
 - A small percentage reduction to the State IVU
 - Funding most if not all of the PREPA negotiated debt settlement

Example of Expenditure reduction opportunities...

- Our Legislature:
 - 78 legislators, or 1 legislator per 41,025 residents
 - Base salary of \$72k per annum, plus ~\$35k in per diems + incidentals.
 - 2023 approved budget of \$133m, for a net cost of \$1.7k per Legislator*
- US State Legislatures:
 - 7,383 total legislators, or 1 legislator per 44,697 residents **
 - Basic average wages of \$29k per annum **
 - 20 of the 50 Legislature provide zero funds for aides or other 'support' personnel for except for chamber leadership positions**
 - Average cost per Legislator of \$911k**

Key take-aways:

- Our Legislature is markedly more expensive than the US state legislatures.
 - 10% more expensive per Resident; 80% more expensive per Legislator
- Our Legislature's budget should be further reduced by at least \$50m

- * Puerto Rico Oficina de Gerencia y Presupuesto
- ** National Conference of State Legislatures

SwainDPRCorresp NYSD

From: Richard Hirsch
Sent: Monday, November 21, 2022 3:13 PM
To: NYSD Swain Corresp
Cc: Hirsch Richard
Subject: Thanksgiving, Christmas and New Year's wishes

CAUTION - EXTERNAL:

Hello Judge Laura Swain,

My wife and our family are a few of the many thousands of people who fortunately, or unfortunately, invested in Puerto Rico bonds over 5 years ago. There are certainly risks in every investment; little did I personally know anything about these investments until Puerto Rico declared that they would no longer honor their promises. My wife and I looked forward to the income these municipal bonds were supposed to generate as they would have been very helpful to us in our retirement years, our children and our five grandchildren. For five years we have been waiting. Unfortunately for our family, my wife died of Pancreatic cancer and will never see the fruits of her investments.

I have been following the progress of the legal proceedings as best I can via my broker and reading Cate Long's comments on Twitter. I recently read that you had set a deadline of 12/1/22 for settlement of the Prepa bonds lawsuit(s) and that certainly was a ray of hope to all of our family members. You and your staff are to be commended for your dedication, ethics and commitment to overseeing the proceedings and to obtaining the best results possible for the bond holders and for Puerto Rico.

Please, please, please, continue to do everything possible to expedite the resolution of this unfortunate legal dispute so that all of the investors can begin to enjoy the promised returns from these investments. As I am 75 years old, I too would like to enjoy the fruits of our labors while I am still around to see it.

Best wishes to you, your family, your staff and thank you again for your continued efforts.

Richard B. Hirsch

CAUTION - EXTERNAL EMAIL: This email originated outside the Judiciary. Exercise caution when opening attachments or clicking on links.